
**Audit of Costs Charged by Educational Institutions
to USAID/South Africa under Project
Implementation Letters Funded by the Tertiary
Education Linkage Project**

**Report No. 4-674-00-007-F
November 30, 1999**

REGIONAL INSPECTOR GENERAL/PRETORIA



*Regional Inspector General
Pretoria*

Memorandum

DATE: November 30, 1999

TO: USAID/South Africa Director, William Stacy Rhodes

FROM: Regional Inspector General/Pretoria, Joseph Farinella *Joseph Farinella*

SUBJECT: Audit of Costs Charged by Educational Institutions to USAID/South Africa under Project Implementation Letters Funded by the Tertiary Education Linkage Project, Report No. 4-674-00-007-F

This memorandum is our consolidated report on the subject audit. We have considered your comments on the draft report and have included them as Appendix II herein. This report contains three recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

Between February 1996 and June 1999, USAID/South Africa issued 36 Project Implementation Letters (PILs) to fund education activities totaling approximately \$6.8 million to be implemented by 16 historically disadvantaged South African educational institutions under the Mission's Tertiary Education Linkage Project (TELP). The PILs established the funding criteria and specified the activities to be implemented. Examples include: (i) establishing an MBA degree program at the University of Fort Hare under PIL No. 50, (ii) strengthening the academic preparation of disadvantaged students to complete degrees in technical studies at Technikon Northern Gauteng under PIL No. 45, and (iii) establishing a Science Foundation Program at the University of North West under PIL No. 71.

Recently, USAID/South Africa officials had expressed a desire to have audits conducted of activities financed by certain PILs to determine the propriety of the expenditures charged by the recipient institutions to USAID. Negative reports had appeared in the

South African press about financial management within these institutions, which fueled the Mission's concerns. Consequently, Mission officials requested RIG/Pretoria to conduct a financial audit of expenditures incurred under the PILs.

Accordingly, RIG/Pretoria audited 11 PILs issued by USAID/South Africa to six educational institutions funded by the TELP program. The institutions were: Border Technikon, Medical University of Southern Africa, University of Fort Hare, Technikon Northern Gauteng, University of North West, and University of Zululand.

Amounts committed by the Mission under the 11 PILs totaled \$1,452,136 (ZAR 8,712,816). Costs reimbursed by the Mission to the institutions to implement activities under those PILs were \$236,048 (ZAR 1,436,672). Appendix III presents a consolidated summary of the financial data. The results of the six audits are described in individual audit reports for each of the six institutions, which are listed in Appendix IV.

Audit Objective

The Office of the Regional Inspector General/Pretoria conducted audits of six South African educational institutions to answer the following question:

Were costs charged to USAID/South Africa by the six educational institutions funded through 11 Project Implementation Letters issued under the Tertiary Education Linkage Project reasonable, allocable and allowable in accordance with USAID rules and regulations?

Appendix I describes the scope and methodology.

Summary of Audit Results

The audits found that of costs totaling \$236,048 (ZAR 1,436,672) reimbursed by USAID/South Africa to six educational institutions under 11 PILs, \$224,001 (ZAR 1,362,702) was reasonable, allocable and allowable. The remaining \$12,017 (ZAR 73,970) was questioned because the costs were not supported by appropriate documentation.

In addition, the audits reported on those institutions that did not: (1) have effective accounting systems to track, verify, account for, and report costs incurred under the PILs, (2) establish travel expense reimbursement policies consistent with that of USAID's, (3) submit final vouchers and take prompt close out actions on expired PILs, and (4) make adequate progress in implementing planned activities.

The following paragraphs highlight the significant findings reported in the individual audit reports and include recommendations to address the problems noted.

Timeliness and Accuracy of Reimbursement Reports Should be Improved

Correct and timely reporting of information is essential for making sound management decisions. The U.S. General Accounting Office's publication, titled "Standards for Internal Controls," states that transactions and other significant events are to be promptly recorded and properly classified. Also, the Federal Manager's Financial Integrity Act requires that Federal agencies establish internal accounting and administrative controls which reasonably ensure that reliable reports are prepared.

The PILs issued by USAID/South Africa to fund educational activities under the TELP program required the recipient institutions to disburse its own funds for eligible expenses and then request reimbursement from USAID by submitting monthly expenditure reports. The institutions were also required to maintain books and records relating to the funds committed and disbursed under the PILs.

The audits conducted at the six educational institutions reported the following:

- Five institutions - Border Technikon, Technikon Northern Gauteng, University of Zululand, University of Fort Hare, and University of North West - had inadequate accounting records.
- In two institutions – Technikon Northern Gauteng and University of Fort Hare – the audits identified incorrect or incomplete postings of transactions to books of account.
- With regard to three PILs (Nos. 4, 28 and 45), the audits identified costs totaling \$2,554 (ZAR 15,938), \$ 1,225 (ZAR 7,615), and \$8,238 (ZAR 50,417), respectively, that were not supported by appropriate documentation. The institutions implementing those PILs were University of Fort Hare and Technikon Northern Gauteng. Therefore, those expenditures were reported as unsupported questioned costs.
- For PIL Nos. 65 and 71, costs totaling \$18,701 (ZAR 99,807) and \$29,700 (ZAR 183,000), respectively, were incurred. However, no reimbursement reports were submitted by the recipient institutions – Border Technikon and the University of North West – to USAID/South Africa.
- Although all PILs audited had between 12 and 36 months of activity, few expenditures were reported to USAID by the recipient institutions. For example, Border Technikon, which had two PILs (Nos. 52 and 65) active for more than 12 months at the time of audit, had submitted only two reimbursement reports to USAID for PIL No. 52 and none for PIL No. 65. Likewise, the University of Zululand submitted only two reimbursement reports during the three-year life of its PIL No. 15.

Also, in reviewing travel expenses charged to USAID by the above institutions, the audits found that the PILs did not specify how travel costs are to be reimbursed. Since these costs are reimbursable by USAID, the reports concluded that a uniform USAID travel policy should be applied.

The above deficiencies occurred because the recipient institutions did not establish an effective accounting system to track, verify, compile and report costs incurred under the PILs and submit monthly expenditure reports to USAID/South Africa, as required.

Consequently, financial reports were not submitted in a timely manner and the accuracy of those reports that were submitted could not always be relied upon. It was noted that USAID/South Africa had maintained a system to track expenditures and monitor implementation of activities under its PILs. However, because of an ineffective accounting and reporting system at the recipient institutions, the Mission was not always aware of the total costs actually incurred as opposed to the costs that were reported. We therefore believe that timely and accurate reports from those institutions would better enable the Mission to more effectively monitor costs incurred and activities implemented under the PILs.

Recommendation No. 1: We recommend that USAID/South Africa establish procedures to include in all Project Implementation Letters that commit funds under the Tertiary Education Linkage Project provisions requiring (a) comprehensive accounting and reporting systems that facilitate tracking, verifying, accounting for, and reporting costs under the PILs within established time frames; and (b) implementation of a uniform travel policy consistent with that of USAID's.

Recommendation No. 2: We recommend that USAID/South Africa determine the allowability of and collect, as appropriate, the following questioned costs:

- (a) University of Fort Hare (PIL No. 4) - \$2,554 (ZAR 15,938)
- (b) University of Fort Hare (PIL No. 28) – \$1,225 (ZAR 7,615)
- (c) Technikon Northern Gauteng (PIL No. 45) - \$8,238 (ZAR 50,417)

**Expired Project Implementation Letters
Should be Expeditiously Closed Out**

Prudent management practice requires that expired PILs be promptly closed out and a final accounting be made of the expenditures incurred and activities completed.

The audits showed that PIL Nos. 4 and 15, issued to University of Fort Hare and University of Zululand, respectively, had expired in February 1997 and March 1999. Yet, neither institution had submitted final vouchers accounting for the funds received from

USAID, nor reported on the final status of activities that were required to be implemented under the PILs.

Discussions with Mission officials revealed that they were aware of the expired PILs, but believed that immediate close out actions could be detrimental to the overall progress of the various educational activities being implemented under the TELP program.

Since both PILs expired several months ago, we believe that the Mission should now determine their final status and either decommit or reprogram the unused funds, estimated to be \$66,171 (ZAR 408,937) for PIL No.4 and \$105,176 (ZAR 509,052) for PIL No. 15.

Recommendation No. 3: We recommend that USAID/South Africa review, decommit and reprogram as appropriate the estimated unused amounts in respect of the following expired Project Implementation Letters (PILs):

(a) University of Fort Hare (PIL No. 4) - \$66,171 (ZAR 408,937)

(b) University of Zululand (PIL No. 15) - \$105,176 (ZAR 509,052)

Status of Planned Activities

The audits disclosed that activities were being implemented in most PILs that we reviewed. However, there was a lack of progress under PIL Nos. 15 and 71 as discussed below.

The University of Zululand (UNIZUL) was to implement three activities under PIL No. 15. The audit showed that none of these were completed by the time the PIL expired in March 1999.

According to UNIZUL officials, lack of progress was primarily due to inadequate staffing. The responsible official died shortly after the PIL was initiated in March 1996 and his replacement was appointed a year later. This, however, did not result in completion of any of the activities under the PIL.

The University of North West (UNW) was to implement three activities under PIL No.7 and its replacement PIL No.71. Only one was being implemented at the time of our audit.

UNW officials stated that staffing problems affected implementation of planned activities. Both the project leader and the TELP coordinator left that institution between January and March of 1999 and their replacement stated that all records relating to the PIL had been removed by the previous incumbent leaving no evidence as to what was done to implement the planned activities.

As a result, USAID funds of \$64,077 (ZAR 387,162) reimbursed under PILs 15, 7 and 71 did not result in the activities being completed.

We noted that USAID/South Africa maintained a system to monitor activities under its PILs. However, we believe that it would be useful to include interim targets or benchmarks to measure progress where necessary so that project officers and managers could promptly take corrective action when targets were not being met. This was discussed with Mission officials who concurred. In fact, they stated that implementation plans containing targets and benchmarks along the lines we discussed are now a requirement in all new PILs and for all current PILs that extend beyond June 2000. Therefore, we are not making a recommendation

Management Comments and Our Evaluation

USAID/South Africa reviewed and agreed with the recommendations contained in this report. The full text of the Mission's comments is contained in Appendix II.

Recommendation No. 1 states that USAID/South Africa should establish procedures to include in all Project Implementation Letters (PILs) under the Tertiary Education Linkages Project provisions requiring (a) comprehensive accounting and reporting systems that facilitate tracking, verifying and accounting for, and reporting costs under the PILs within established timeframes; and (b) implementation of a uniform travel policy consistent with that of USAID's.

USAID/South Africa stated that it will issue a PIL requiring the above to all Historically Disadvantaged Institutions that receive TELP support.

Based on the foregoing, a management decision has been reached on Recommendation No. 1. USAID/South Africa should notify M/MPI when final action is complete.

Recommendation No. 2 states that USAID/South Africa should determine the allowability and collect the following questioned costs, as appropriate:

- (a) University of Fort Hare (PIL No. 4) - \$2554 (ZAR 15,938)
- (b) University of Fort Hare (PIL No. 28) - \$1,225 (ZAR 7,615)
- (c) Technikon Northern Gauteng (PIL No. 45) - \$8,238 (ZAR 50,417)

USAID/South Africa stated that it would work with the TELP Institutional Contractor to determine the allowability of the aforementioned funds and collect as appropriate.

A management decision on Recommendation No. 2 is needed. It will be reached when USAID/South Africa determines the allowability of the specific amounts questioned.

Recommendation No. 3 states that USAID/South Africa should review, decommit and reprogram as appropriate the estimated unused amounts in respect of the following expired Project Implementation Letters (PILs):

- (a) University of Fort Hare (PIL No. 4) - \$66,171 (ZAR 408,937)
- (b) University of Zululand (PIL No. 15) - \$105,176 (ZAR 509,052)

USAID/South Africa stated that it will request final progress reports and vouchers from these universities and issue PILs to close out those activities and decommit any remaining funds.

A management decision is needed on Recommendation No. 3. It will be reached when the Mission determines the amounts to be decommitted and/or reprogrammed.

In addition to the above, USAID/South Africa agreed to include interim targets or benchmarks to measure progress for each PIL. Since November 1998, each new PIL was required to include an Implementation and Monitoring Plan, which provides key steps and time frames against which to assess implementation progress.

SCOPE AND METHODOLOGY

As part of its fiscal year 1999 audit plan, RIG/Pretoria conducted an audit of costs charged to USAID/South Africa by six educational institutions under 11 Project Implementation Letters (PILs) funded by the Tertiary Education Linkage Project (TELP). Separate audit reports were issued, covering costs charged to the Mission by each of the six educational institutions, which are listed in Appendix IV. The audits were done in accordance with generally accepted government auditing standards at the offices of USAID/South Africa in Pretoria and at the educational institutions throughout South Africa. Fieldwork was carried out from June through September of 1999.

Total amount committed by USAID/South Africa under the above PILs was approximately \$1.4 million and the costs audited were \$236,048 (see Appendix III). Because of the small size of the universe, we audited 100 per cent of those costs and considered any amount questioned to be material.

To accomplish our audit objective, we (1) examined financial reports and supporting documents for submitted vouchers to verify actual costs, (2) reviewed account balances at the offices of the Mission and the institutions, and (4) assessed progress toward implementing the planned activities.

In addition, we interviewed Mission and host country officials and analyzed the activity reports submitted by the institutions to USAID/South Africa, documenting implementation of the planned activities.

UNITED STATES AGENCY FOR INTERNATIONAL
DEVELOPMENT



MEMORANDUM

TO: Joe Farinella, RIG FROM: Stacy Rhodes, DIR
CC: Patrick Fine, SO2 DATE: 11/05/99
RE: Consolidated Report on Audit of Cost Charged by Educational Institutions to USAID
under Project Implementation Letters Funded by the Tertiary Education Linkages
Project, Report No. 4-674-00-007-F

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

This memorandum is a response to your consolidated report on the subject audit. We have considered your recommendations and we hereby provide you with our management comments.

Management Comments

- I. USAID/South Africa reviewed and agrees with the recommendations of the subject audit.

Recommendation No. 1: We recommend that USAID/South Africa include in all Project Implementation Letters (PIL) under the Tertiary Education Linkages Project provisions requiring (a) comprehensive accounting and reporting systems that facilitate tracking, verifying, accounting for, and reporting costs under the PILs within established time frames; and (b) implementation of a uniform travel policy consistent with that of USAID's.

USAID/South Africa shall issue a PIL to all Historically Disadvantaged Institutions (HDIs) that receive TELP support, which sets out provisions on:

- (a) comprehensive accounting and reporting systems that facilitate tracking, verifying, accounting for, and reporting costs under the PILs within established timeframes;
- (b) a uniform USAID travel policy that specifies how travel costs are to be reimbursed.

The new provisions for a comprehensive reporting system and travel outlined in this single PIL shall apply to all activity and TELP Coordinator PILs issued prior to the audit. All new activity and TELP Coordinator PILs that are issued henceforth will include the accounting and travel provisions.

Recommendation No. 2: We recommend that USAID/South Africa determine the allowability of and collect, as appropriate, the following costs from the under mentioned educational institutions:

- (a) University of Fort Hare (PIL No. 4) - \$2,554 (ZAR 15,938)
- (b) University of Fort Hare (PIL No. 28) - \$1,225 (ZAR 7,615)
- (c) Technikon Northern Gauteng (PIL No. 45) - \$8,238 (ZAR 50,417)

USAID/South Africa shall work with the TELP Institutional Contractor, The United Negro College Fund, to determine the allowability of funds and collect questioned costs from the above mentioned educational institutions. Where expenditures are determined to have been unsupported or ineligible costs, USAID/South Africa shall issue a bill for collection.

Recommendation No. 3: We recommend that USAID/South Africa review, decommit and reprogram as appropriate the estimated amounts in respect of the following expired Project Implementation Letters (PILs):

- (a) University of Fort Hare (PIL No. 4) - \$66,171 (ZAR 408,937)
- (b) University of Zululand (PIL No. 15) - \$105,000 (ZAR 509, 052)

USAID/South Africa shall decommit the specified amounts by taking the following steps:

- Request final progress reports and vouchers from the Universities of Zululand and Fort Hare, and
- Issue PILs to both institutions to close out those activities and decommit any remaining funds.

- II. USAID/South Africa agrees with the suggestion of including interim targets or benchmarks to measure progress in Project Implementation Letters (PILs).

Since November 1998, USAID/South Africa made it a requirement for new PILs to have Implementation and Monitoring Plans in place. These plans provide key steps and timeframes against which to assess implementation progress. In addition, USAID/South Africa requested the United Negro College Fund to review all PILs that extend beyond June 2000 and do not have Implementation and Monitoring Plans in order to assist them to develop these plans.

**SUMMARY OF PROJECT IMPLEMENTATION LETTERS AUDITED
UNDER USAID/SOUTH AFRICA'S TERTIARY EDUCATION LINKAGE PROJECT**

INSTITUTION	PIL NO.	<u>USAID COMMITMENTS</u>		<u>COSTS REIMBURSED</u>	
		\$	ZAR	\$	ZAR
Border Technikon	52	117,909	707,454	30,090	184,923
Border Technikon	65	117,666	705,996	0	0
Medical University of Southern Africa	61	154,688	928,128	50,380	306,635
University of Fort Hare	4	68,750	412,500	2,579	15,939
University of Fort Hare	28	60,300	361,800	6,998	42,914
University of Fort Hare	50	212,600	1,275,600	17,881	112,117
Technikon Northern Gauteng	45	191,000	1,146,000	14,769	88,744
University of North West	7,71	279,211	1,675,266	58,329	359,333
University of North West	64	139,088	834,528	49,274	298,238
University of Zululand	15	110,924	665,544	5,748	27,829
Total		<u>\$ 1,452,136</u>	<u>R 8,712,816</u>	<u>\$ 236,048</u>	<u>R 1,436,672</u>

Notes:

- (1) Amounts have been converted from U.S. dollars to South African Rands (ZAR) at the prevailing rate of exchange on the transaction dates.
- (2) PIL No. 7 was replaced by PIL No. 71 in July 1998. Amounts committed and disbursed under PIL No. 7 were transferred to PIL No.71.

**AUDIT REPORTS ISSUED BY RIG/PRETORIA ON COSTS CHARGED TO
USAID/SOUTH AFRICA BY SIX EDUCATIONAL INSTITUTIONS UNDER
ELEVEN PROJECT IMPLEMENTATION LETTERS FUNDED BY THE
TERTIARY EDUCATION LINKAGE PROJECT**

- Audit of USAID/South Africa's Project Implementation Letter Nos. 52 and 65 to Border Technikon under the Tertiary Education Linkage Project, Report No. 4-674-00-001-F, issued on November 26, 1999
- Audit of USAID/South Africa's Project Implementation Letter No. 61 to the Medical University of Southern Africa under the Tertiary Education Linkage Project, Report No. 4-674-00-002-F, issued on November 26, 1999
- Audit of USAID/South Africa's Project Implementation Letter No. 45 to Technikon Northern Gauteng under the Tertiary Education Linkage Project, Report No. 4-674-00-003-F, issued on November 26, 1999
- Audit of USAID/South Africa's Project Implementation Letter Nos. 4, 28 and 50 to the University of Fort Hare under the Tertiary Education Linkage Project, Report No. 4-674-00-004-F, issued on November 26, 1999
- Audit of USAID/South Africa's Project Implementation Letter Nos. 7, 64 and 71 to the University of North West under the Tertiary Education Linkage Project, Report No. 4-674-00-005-F, issued on November 26, 1999
- Audit of USAID/South Africa's Project Implementation Letter No. 15 to the University of Zululand under the Tertiary Education Linkage Project, Report No. 4-674-00-006-F, issued on November 26, 1999